

105TH CONGRESS
2D SESSION

S. 2471

To amend the Internal Revenue Code of 1986 to provide a partial exclusion from gross income for dividends and interest received by individuals.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 15, 1998

Mr. COVERDELL (for himself and Mr. TORRICELLI) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide a partial exclusion from gross income for dividends and interest received by individuals.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Savings Advancement
5 and Enhancement (SAVE) Act of 1998”.

6 **SEC. 2. EXEMPTION OF CERTAIN INTEREST AND DIVIDEND** 7 **INCOME FROM TAX.**

8 (a) IN GENERAL.—Part III of subchapter B of chap-
9 ter 1 of the Internal Revenue Code of 1986 (relating to
10 amounts specifically excluded from gross income) is

1 amended by inserting after section 115 the following new
2 section:

3 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**
4 **EST RECEIVED BY INDIVIDUALS.**

5 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
6 come does not include the sum of the amounts received
7 during the taxable year by an individual as—

8 “(1) dividends from domestic corporations, or

9 “(2) interest.

10 “(b) LIMITATIONS.—

11 “(1) MAXIMUM AMOUNT.—The aggregate
12 amount excluded under subsection (a) for any tax-
13 able year shall not exceed \$250 (\$500 in the case of
14 a joint return).

15 “(2) LIMITATION BASED ON TAXABLE IN-
16 COME.—No exclusion from gross income shall be al-
17 lowed under this section for an individual for a tax-
18 able year if the individual has any amount of taxable
19 income taxed at the rate of 39.6 percent for the tax-
20 able year.

21 “(3) CERTAIN DIVIDENDS EXCLUDED.—Sub-
22 section (a)(1) shall not apply to any dividend from
23 a corporation which, for the taxable year of the cor-
24 poration in which the distribution is made, or for the
25 next preceding taxable year of the corporation, is a

1 corporation exempt from tax under section 501 (re-
 2 lating to certain charitable, etc., organization) or
 3 section 521 (relating to farmers' cooperative associa-
 4 tions).

5 “(c) INTEREST.—For purposes of this section, the
 6 term ‘interest’ means—

7 “(1) interest on deposits with a bank (as de-
 8 fined in section 581),

9 “(2) amounts (whether or not designated as in-
 10 terest) paid in respect of deposits, investment certifi-
 11 cates, or withdrawable or repurchasable shares, by—

12 “(A) a mutual savings bank, cooperative
 13 bank, domestic building and loan association,
 14 industrial loan association or bank, or credit
 15 union, or

16 “(B) any other savings or thrift institution
 17 which is chartered and supervised under Fed-
 18 eral or State law,

19 the deposits or accounts in which are insured under
 20 Federal or State law or which are protected and
 21 guaranteed under State law,

22 “(3) interest on—

23 “(A) evidences of indebtedness (including
 24 bonds, debentures, notes, and certificates)

1 issued by a domestic corporation in registered
2 form, and

3 “(B) to the extent provided in regulations
4 prescribed by the Secretary, other evidences of
5 indebtedness issued by a domestic corporation
6 of a type offered by corporations to the public,

7 “(4) interest on obligations of the United
8 States, a State, or a political subdivision of a State
9 (not excluded from gross income of the taxpayer
10 under any other provision of law), and

11 “(5) interest attributable to participation shares
12 in a trust established and maintained by a corpora-
13 tion established pursuant to Federal law.

14 “(d) SPECIAL RULES.—For purposes of this sec-
15 tion—

16 “(1) DISTRIBUTIONS FROM REGULATED IN-
17 VESTMENT COMPANIES AND REAL ESTATE INVEST-
18 MENT TRUSTS.—Subsection (a) shall apply with re-
19 spect to distributions by—

20 “(A) regulated investment companies to
21 the extent provided in section 854(c), and

22 “(B) real estate investment trusts to the
23 extent provided in section 857(c).

24 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
25 poses of subsection (a), the amount of dividends and

1 interest properly allocable to a beneficiary under sec-
 2 tion 652 or 662 shall be deemed to have been re-
 3 ceived by the beneficiary ratably on the same date
 4 that the dividends and interest were received by the
 5 estate or trust.

6 “(3) CERTAIN NONRESIDENT ALIENS INELI-
 7 GIBLE FOR EXCLUSION.—In the case of a non-
 8 resident alien individual, subsection (a) shall apply
 9 only—

10 “(A) in determining the tax imposed for
 11 the taxable year pursuant to section 871(b)(1)
 12 and only in respect of dividends and interest
 13 which are effectively connected with the conduct
 14 of a trade or business within the United States,
 15 or

16 “(B) in determining the tax imposed for
 17 the taxable year pursuant to section 877(b).”.

18 (b) CONFORMING AMENDMENTS.—

19 (1) The table of sections for part III of sub-
 20 chapter B of chapter 1 of such Code is amended by
 21 inserting after the item relating to section 115 the
 22 following new item:

“Sec. 116. Partial exclusion of dividends and interest received by
 individuals.”.

23 (2) Paragraph (2) of section 265(a) of such
 24 Code is amended by inserting before the period at

1 the end the following: “, or to purchase or carry ob-
 2 ligations or shares, or to make deposits, to the ex-
 3 tent the interest thereon is excludable from gross in-
 4 come under section 116”.

5 (3) Subsection (c) of section 584 of such Code
 6 is amended by adding at the end the following new
 7 flush sentence:

8 “The proportionate share of each participant in the
 9 amount of dividends or interest received by the common
 10 trust fund and to which section 116 applies shall be con-
 11 sidered for purposes of such section as having been re-
 12 ceived by such participant.”.

13 (4) Subsection (a) of section 643 of such Code
 14 is amended by redesignating paragraph (7) as para-
 15 graph (8) and by inserting after paragraph (6) the
 16 following new paragraph:

17 “(7) DIVIDENDS OR INTEREST.—There shall be
 18 included the amount of any dividends or interest ex-
 19 cluded from gross income pursuant to section 116.”.

20 (5) Section 854 of such Code is amended by
 21 adding at the end the following new subsection:

22 “(c) TREATMENT UNDER SECTION 116.—

23 “(1) IN GENERAL.—For purposes of section
 24 116, in the case of any dividend (other than a divi-
 25 dend described in subsection (a)) received from a

1 regulated investment company which meets the re-
2 quirements of section 852 for the taxable year in
3 which it paid the dividend—

4 “(A) the entire amount of such dividend
5 shall be treated as a dividend if the sum of the
6 aggregate dividends and the aggregate interest
7 received by such company during the taxable
8 year equals or exceeds 75 percent of its gross
9 income, or

10 “(B) if subparagraph (A) does not apply,
11 there shall be taken into account under section
12 116 only the portion of such dividend which
13 bears the same ratio to the amount of such div-
14 idend as the sum of the aggregate dividends re-
15 ceived and aggregate interest received bears to
16 gross income.

17 For purposes of the preceding sentence, gross in-
18 come and aggregate interest received shall each be
19 reduced by so much of the deduction allowable by
20 section 163 for the taxable year as does not exceed
21 aggregate interest received for the taxable year.

22 “(2) NOTICE TO SHAREHOLDERS.—The amount
23 of any distribution by a regulated investment com-
24 pany which may be taken into account as a dividend
25 for purposes of the exclusion under section 116 shall

1 not exceed the amount so designated by the com-
 2 pany in a written notice to its shareholders mailed
 3 not later than 60 days after the close of its taxable
 4 year.

5 “(3) DEFINITIONS.—For purposes of this sub-
 6 section—

7 “(A) GROSS INCOME.—The term ‘gross in-
 8 come’ does not include gain from the sale or
 9 other disposition of stock or securities.

10 “(B) AGGREGATE DIVIDENDS.—The term
 11 ‘aggregate dividends’ includes only dividends re-
 12 ceived from domestic corporations other than
 13 dividends described in section 116(b)(2). In de-
 14 termining the amount of any dividend for pur-
 15 poses of this subparagraph, the rules provided
 16 in section 116(d)(1) (relating to certain dis-
 17 tributions) shall apply.

18 “(C) INTEREST.—The term ‘interest’ has
 19 the meaning given such term by section
 20 116(c).”.

21 (6) Subsection (c) of section 857 of such Code
 22 is amended to read as follows:

23 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-
 24 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

1 “(1) IN GENERAL.—For purposes of section
 2 116 (relating to an exclusion for dividends and inter-
 3 est received by individuals) and section 243 (relating
 4 to deductions for dividends received by corpora-
 5 tions), a dividend received from a real estate invest-
 6 ment trust which meets the requirements of this
 7 part shall not be considered as a dividend.

8 “(2) TREATMENT AS INTEREST.—For purposes
 9 of section 116, in the case of a dividend (other than
 10 a capital gain dividend, as defined in subsection
 11 (b)(3)(C)) received from a real estate investment
 12 trust which meets the requirements of this part for
 13 the taxable year in which it paid the dividend—

14 “(A) such dividend shall be treated as in-
 15 terest if the aggregate interest received by the
 16 real estate investment trust for the taxable year
 17 equals or exceeds 75 percent of its gross in-
 18 come, or

19 “(B) if subparagraph (A) does not apply,
 20 the portion of such dividend which bears the
 21 same ratio to the amount of such dividend as
 22 the aggregate interest received bears to gross
 23 income shall be treated as interest.

1 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
 2 GREGATE INTEREST RECEIVED.—For purposes of
 3 paragraph (2)—

4 “(A) gross income does not include the net
 5 capital gain,

6 “(B) gross income and aggregate interest
 7 received shall each be reduced by so much of
 8 the deduction allowable by section 163 for the
 9 taxable year (other than for interest on mort-
 10 gages on real property owned by the real estate
 11 investment trust) as does not exceed aggregate
 12 interest received by the taxable year, and

13 “(C) gross income shall be reduced by the
 14 sum of the taxes imposed by paragraphs (4),
 15 (5), and (6) of section 857(b).

16 “(4) INTEREST.—The term ‘interest’ has the
 17 meaning given such term by section 116(c).

18 “(5) NOTICE TO SHAREHOLDERS.—The amount
 19 of any distribution by a real estate investment trust
 20 which may be taken into account as interest for pur-
 21 poses of the exclusion under section 116 shall not
 22 exceed the amount so designated by the trust in a
 23 written notice to its shareholders mailed not later
 24 than 60 days after the close of its taxable year.”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1997.

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